



United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/CN.2/GE.1/2
12 November 1993

Original: ENGLISH

STANDING COMMITTEE ON POVERTY ALLEVIATION
Intergovernmental Group of Experts on
Poverty Alleviation
Geneva, 24 January 1994
Item 3 of the provisional agenda

EXCHANGE OF EXPERIENCES ON POVERTY REDUCTION IMPACTS OF SOCIAL
FUNDS AND SAFETY NETS, INCLUDING MOBILIZATION OF DOMESTIC
AND EXTERNAL RESOURCES FOR POVERTY ALLEVIATION

Issues note by the UNCTAD secretariat

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I. INTRODUCTION

1. Despite considerable progress in living standards in certain regions and indications that the overall incidence of poverty - as measured by the percentage of people below the poverty line in total population - might be falling, the absolute number of poor in the world is continuing to increase.¹ Poverty remains a persistent problem. Poverty alleviation and reduction is increasingly placed at the forefront of the concerns of the international community, being seen not only as an imperative to fight the ills connected with poverty and the threat to global security that they entail, but also in terms of global savings and factors of growth that would be derived from the active and equitable participation of the poor in the development process.

2. The United Nations Conference on Trade and Development, at its eighth session in Cartagena, therefore identified the elimination of poverty and the acceleration of economic growth as the most important development challenges for the 1990s and it established a Standing Committee on Poverty Alleviation within UNCTAD. At its first session, this Standing Committee agreed on its work programme for the years to come and decided to set up a preparatory intergovernmental group of experts prior to each of its future sessions. It assigned to the first meeting of the Intergovernmental Group of Experts on Poverty Alleviation the following cluster of topics: "Exchanges of experiences on poverty reduction impacts and safety nets, including mobilization of domestic resources for poverty alleviation".

3. This issues note gives an overview of the main findings, the causes of success and problem areas, in respect of the cluster of topics mentioned above and raises a number of issues for debate and exchange of experiences by the Intergovernmental Group of Experts and for further research. The Group of Experts may also wish to identify for further research issues covered in the work programme of the Standing Committee but not dealt with in this note. The note draws extensively on the three background notes prepared for the Intergovernmental Group of Experts namely:

- Recent developments in social funds and safety nets (UNCTAD/PA/2) which contains a detailed bibliography;
- Mobilization of domestic resources for poverty alleviation (UNCTAD/PA/3);
- Mobilization of external resources for poverty alleviation (UNCTAD/PA/4).

¹/ Recent trends in poverty are outlined in the World Bank's *Strategy to Reduce Poverty, Progress and Challenges*. pp.3 to 8. Estimates of the percentage of people below the poverty line are provided in UNDP's *Human Development Report 1993*, (tables 18 and 51) for individual developing countries and major groups. For the period 1977-1989 the estimate for the least developed countries is 70 per cent (72 per cent for rural population and 62 per cent for urban population) as compared with 32 per cent for all developing countries (36 per cent for rural population and 25 per cent for urban population).

4. The approach adopted in this note is based on the premise that a supportive environment for poverty alleviation and reduction requires simultaneous actions along three axes: (i) the design and implementation of appropriate macro-economic and sectoral policies conducive to growth and the creation of productive employment that benefit the poor; (ii) delivery of social services for and to the poor (for example, primary health care, basic education, nutrition, water supply and sanitation); and (iii) the establishment of safety nets for the most vulnerable groups. Within this strategy, priority has to be given to the design, sequencing and implementation of policies and measures which permit the poor to be fully integrated into productive activities - i.e. those which not only make them the beneficiaries of growth dividends through redistribution schemes but also active participants in the growth process itself. To be effective - in terms of maximizing responses to needs and minimizing costs so as to make best use of the generally scarce resources available - policies and programmes must, as much as possible, be demand-driven. For this, the poor must be enabled and given the opportunity to participate and articulate themselves in the design and implementation of anti-poverty projects, programmes and policies. Incorporating systematically a gender element is also essential as women are relatively more disadvantaged and vulnerable in poor communities, but at the same time they have a greater potential as contributors to poverty alleviation.

5. To be capable of implementation, and for a truly successful effort to reduce poverty, this strategy requires new resources to be generated at the local community, national and international levels.

6. Section II analyses the role of safety nets and social funds in alleviating poverty in developing countries (in line with the third axis of the strategy enunciated above). Section III deals with the vast topic of mobilization of domestic resources for poverty alleviation while section IV is devoted to the role of external resources.

II. SAFETY NETS AND SOCIAL FUNDS

7. This section focuses on the role of safety nets (SNs) and social funds in alleviating poverty in developing countries, particularly those undertaking structural adjustment or facing its aftermath. It examines their types, similarities and differences, and their performance and major problems. It also contains recommendations and policy options which the Intergovernmental Group might wish to discuss. The main findings are based on a selection of 29 SNs in 27 countries and on four major case studies.² Since the focus of this paper is

^{2/} Annex tables 2 and 3 present most important data for these 29 SNs in 27 countries (15 from Latin America and 12 from Africa) including: year of start, duration, type of SN, target population, autonomy, policies and projects, financing and evaluation of performance. The four major cases of study selected for a deep analysis are Bolivia and Honduras from Latin America, and Egypt and Ghana from Africa. Criteria for the selection are: geographical location, levels of development, poverty incidence, time of inception and influence of their SNs, and the latter divergent characteristics and performance. The four countries chosen are low-income economies that have a low human development and come quite close in both the UNDP index of human development as well as in a set of
(continued...)

on the new generation of SNs, the Asian multi-sectoral programmes launched in the 1970s and 1980s are not included in this note.³ SNs in transitional economies of Eastern and Central Europe have been excluded because of their significantly different models of economic organization and reform processes compared with those of Africa and Latin America.

8. At the outset, it should be noted that the creation of SNs in the 1980s and beginning of the 1990s has been indeed due, on the one hand, to the worsening of poverty due to economic crisis, structural adjustment, war and natural catastrophes, which increased the danger of political unrest; and, on the other hand, to the inability of the traditional State apparatus to cope with the worsening situation. In general, existing social welfare systems protect neither the poor nor other vulnerable groups harmed by the reform. However, social welfare networks in developing countries are heterogeneous in varying degrees of coverage. For example, in Latin America they are more advanced and cover a much wider population than in Africa.

A. Concepts and types of safety nets

9. In this note, the term SNs is used in a broad sense encompassing three different types: social action programmes (SAPs), emergency social funds (ESFs) and social investment funds (SIFs). All three share similar features which distinguish them from traditional central ministries: they are national and multi-sectoral, use targeting, are complementary rather than substitutive, rely on innovative and efficient methods, act in a simpler, faster and more flexible manner, employ high-skilled personnel, are mostly financed by external funds, and promote participation of non-government entities.

10. SAPs usually target vulnerable groups affected by economic reform; they are branches of public agencies (supply-based) and the least decentralized and autonomous SNs; their coordination with central ministries is high and so is the sustainability of their projects; their procedures are often more cumbersome than in other SNs because of the need of coordination with the many agencies involved; and participation of NGOs is relatively low. ESFs are short-term institutions which also target vulnerable groups affected by economic reform; they are usually highly autonomous and decentralized, and play the role of intermediary agencies which set the criteria for selection, monitoring and evaluation of projects identified and managed by other government and non-government institutions (demand-based); their links with central ministries tend to be weak while their procedures are relatively simple, allowing for faster action; project sustainability is relatively low but participation by NGOs is high. SIFs are

²(...continued)
indicators elaborated in the background note (UNCTAD/PA/2). In addition, three supplementary cases are selected: Chile, Mexico and Costa Rica. These countries are at a higher level of development than the four main countries but have different approaches on poverty alleviation worth of study.

³/ A profile of selected Asian programmes is provided in annex table 6 of document UNCTAD/PA/2.

longer-term institutions which tend to target the structurally poor; they are relatively autonomous and decentralized and play an intermediary role (mostly demand-based but also supply-based); their links with central ministries are fairly good and project sustainability is fairly high; their procedures are more complex than ESFs but simpler than SAPs and, hence, their action is relatively fast; and participation of NGOs is high. A comparison of divergent features among the three types of safety nets is presented in annex table 1 and further discussed below.

B. General performance of the three types of safety nets

11. Out of the total ten SAPs in developing countries, nine are in Africa. Their activities have not been successful or at best show a mixed performance in alleviating poverty. One SAP in Latin America seems to have a fair performance, but more precise data are needed for a final judgement on it. The majority of SNs are ESFs, concentrated in Latin America. With few exceptions, they exhibit a fair to good performance. In-depth analysis of two of the three SIFs in Latin America, point to a good performance; information from additional SIFs elsewhere would be needed, however, to reach a conclusion.

12. Although the period of observation is very short⁴ and there are some important exceptions, several shifts appear to be taking place: from SAPs to ESFs and from the latter to SIFs; from short-term to longer-term SNs; from targeting conjunctural poverty to structural poverty; from excessively large multisectoral programmes to more focused ones; and from centralized to more decentralized programmes with higher participation of non-governmental organizations. Likely causes of these shifts are: democratization trends, concern for efficiency, successful completion of economic reform or end of economic crises, and higher international consciousness of the need to alleviate structural poverty.

13. An outstanding question is whether SNs should be short-term and target conjunctural poverty caused by economic reform, or longer-term and target structural poverty. One view is that, owing to scarce resources and the magnitude of poverty, both types of poverty cannot be tackled simultaneously. Accordingly - the argument runs - the priority task should be to deal with the emergency transitory situation; structural poverty will be taken care of by the eventual economic recovery after a successful reform. This is the ESF approach in most countries. However, the transitional period may be prolonged owing to complications in the implementation of the economic reform or its failure, thus requiring the continuation of ESFs which then cease to be short term.

14. An alternative view is that in many African and poor Latin American countries, even successful economic reforms and fast recovery may not, by themselves, alleviate the condition of the structurally poor groups because they live on the margin of the mainstream economy, so that specific targeted programmes or entirely new types of SNs would be needed. The latter approach has been taken by Bolivia, whose successful ESF was later followed by a long-term

⁴/ The majority of ESFs and SIFs have been launched over the last three to four years.

SIF. Finally, there are ESFs that have simultaneously tried to alleviate both types of poverty or have shifted their initial emphasis from the "new" to the "old" poor.

15. There seems to be an emerging consensus, however, that SNs should not be permanent instruments to alleviate poverty, because they would run the risk of bureaucratization and postpone the needed restructuring and the improvement of central ministries.

C. Comparative structure and function of safety nets

1. Targeting the poor

16. Analysis shows that SNs have a significantly different impact in terms of both the size of their beneficiaries and poverty alleviation. Bolivia's ESF reached 14 per cent of the population, mostly poor but not the poorest, while the subsequent SIF now embraces 19 per cent of the population, mostly the poorest in rural areas. Honduras' ESF covers 13 per cent of the population and most beneficiaries are also poor and rural, but still a significant portion of funds go to urban non-poor. Egypt's ESFs and Ghana SAPs beneficiaries account for only 0.5 per cent and 0.3 per cent of their respective populations and these are principally urban groups, most of whom are not among the poorest. In Costa Rica, SAP beneficiaries account for almost one third of the population (although there is significant double counting), but most beneficiaries are not poor; the latter, however, have been protected by the extensive central government and social security networks.

17. Effective targeting requires complex poverty indicators, which are costly and take a long time to develop and implement. These indicators can be used by countries that have overcome the crisis and enjoy a recovery. In emergency situations the poorest can be targeted with relatively simple, less costly and faster techniques, such as emphasizing social services that are most used by the poor, concentrating on deprived geographical regions or zones, and focusing on most vulnerable groups such as undernourished children, mothers and ethnic minorities. In targeting women, however, the focus should not be only on their "reproductive" role but on their "productive" potential as well.

2. Policies and projects

18. Projects that are supported by most SNs cover the following areas: employment creation and income generation; development of infrastructure; delivery of social services; and institutional strengthening.⁵

^{5/} The two pioneer SNs in Latin America and Africa, now terminated, had a divergent experience on policies. Ghana initially developed a plethora of small-scale projects of many different types and geared to a large variety of groups. That effort was jeopardized by the limited SN capacity for monitoring and evaluation and its little reliance on non-government organizations. These problems eventually forced the cut of half of those projects and the focusing on the rest, which in turn, reduced the need of monitoring. And yet Bolivia ESF had better managerial capacity and relied on non-government organizations, and thus was successful in managing thousands of relatively small projects.

19. Employment creation and income generation projects are particularly important for poverty alleviation. Four types of employment projects can be identified: (i) massive creation of temporary unskilled jobs in the public sector that reach a large number of poor, mostly urban, but are badly paid, have low productivity and little or no permanent effects; these projects usually have low cost per job created (Bolivia ESF, Chile-employment, Peru); (ii) creation of more skilled jobs, usually in the private sector, that generate long-term or permanent employment with higher income among the poorest, but with higher costs per job created (Bolivia and Chile SIFs, Honduras ESF); (iii) aid to redeployed civil servants due to economic reform, university graduates and other unemployed groups, mostly urban, with uncertain long-term effects and high costs per beneficiary (Egypt, Ghana); and (iv) credit, training and technical aid to microenterprises, mostly urban, with long-term effects and medium costs (many ESFs and SIFs).

20. An analysis of the efficiency of the first three types of projects in several countries with different types of SNs, based on two indicators, i.e. cost per job created and number of jobs created as percentage of the labour force, showed that: projects of the first type were efficient in creating a large number of temporary unskilled jobs at relative low cost (except Bolivia); the only project of the second type which could be evaluated (Honduras), had relatively low cost, but so far had created a relatively small number of jobs; and projects of the third type generated the least number of jobs (Ghana) or, even when they created a large number of jobs (Egypt), costs were relatively higher because of their emphasis on compensation for the unemployed and the creation of skilled jobs (these projects appear to have the lowest efficiency). According to the two indicators mentioned above, Chile's employment projects were ranked best and Ghana's worst.

21. Although more research is needed on this issue, it appears that projects of the third type should be avoided, those of the second type would be recommendable but would need to have the number of jobs created expanded, and projects of the first type would be the best ones if their long-term effects and productivity could be increased. The effectiveness of SNs will be enhanced if they: give preference to projects that have durable effects such as irrigation, soil improvement, training, creation of micro-enterprises; develop a portfolio of projects before starting the programme; sub-contract the implementation of projects with micro and small enterprises; allocate sufficient resources for skilled managerial personnel, materials, and tools; train the worker involved in the project to enhance its long-term effects; and adapt projects to the characteristics of the participants, for example youth, women, and the unemployed.

22. Available information shows that the fourth type of project is usually successful and has long-lasting effects, at least in the case of projects typically geared to the urban poor, owing to the lack of micro-enterprises in rural areas and difficulties in monitoring them. Bolivia's SIF emphasizes projects located in rural areas, but data on its results are not available. It is generally difficult to monitor rural micro-enterprises and it would be important to develop new approaches to promote and help them.

23. Projects on the development of infrastructure and delivery of social services have normally worked well. To ensure that they are targeted to the poor, these projects should be concentrated on basic services that cost relatively less and are used mainly by the poor, such as: nutrition; basic sanitation and primary health care; literacy, primary and non-formal education; and basic shelter. Among Latin American countries, Mexico is the country that spends most on these projects.

3. Administration

24. The experience of the SNs reviewed above suggests that crucial administrative ingredients for SN success are:

(a) Complementarity, decentralization and coordination

- (i) SNs should complement rather than substitute for the central ministries as the latter have a vast infrastructure and deliver the bulk of social services. But SNs should be innovative in their approaches, transfer their accumulated knowledge to the central ministries, and help them to improve their efficiency and performance. There should be adequate coordination between the SN and the central ministries and other pertinent public institutions.
- (ii) SAPs are usually well integrated with central ministries and global macro-economic and social policies, but they tend to have cumbersome procedures and little flexibility, which leads to a slow pace in their actions. But these features are not universal. Ghana's SAP suffered from lack of adequate coordination and a mid-term revision by external donors created a cumbersome system of supervision that made things worse; the projected substitute SAP in Ghana plans to solve those problems with even higher centralization. Costa Rica needs a global social policy to properly integrate its SAP with other government institutions.
- (iii) ESFs, which are concerned mainly with short-term objectives, are the most decentralized of SNs, and have the poorest linkages with central ministries (resulting in less project sustainability and transfer of knowledge), but they have the simplest administrative procedures and are highly flexible, thus allowing for faster actions (typical examples are Bolivia, Honduras, El Salvador).
- (iv) SIFs which are concerned mainly with long-term considerations, are relatively decentralized and usually have good linkages with central ministries (which enhances their projects' sustainability and facilitates transfer of knowledge); but their procedures tend to be more complex than ESFs - simpler than SAPs - and their actions, therefore, are not as fast as those of ESFs. Chile's SIF, however, is in need of greater coordination with public institutions.
- (v) Coordination of SN and social security institutions is more important in Latin America than in Africa because, in the former, social security in several countries is universal and provides services to the poor, which is not the case in Africa. Furthermore, in some Latin American countries

that currently do not have protection for the poor, population coverage could be expanded in order to provide some services to the poor, such as primary health care in isolated rural areas. Mexico is an example of fair coordination in health care between social security, the ministry of health and an SN to protect the poorest in rural isolated areas. Costa Rica, with a somewhat different approach that nevertheless involves the same agencies, provides health care services and minimum pensions to the poor in urban and rural areas.

- (vi) Coordination might be improved by designing and implementing a national integrated social strategy to determine the goals and functions of each institution involved in poverty alleviation and the relations among them; creating a task force with central social ministries and the SN to monitor implementation of such a strategy and exchange information on innovative approaches, successes, and problems; and designing criteria to screen out SN projects that do not conform with the social strategy.

(b) Intermediary role and transparency

- (i) ESFs are intermediary institutions that do not manage programmes but set criteria for identification, selection, financing, monitoring and evaluation of projects awarded to government and non-government institutions (demand-based). Most SAPs, however, are government branches that identify and manage projects (supply-based). SIFs are also intermediary institutions, like ESFs, and are mostly demand-based, but also have some supply-based features. The intermediary role seems to be crucial for SN success; the lack or weak presence of that feature can partly explain the ongoing shift from SAPs to ESFs and SIFs. SIFs' better balance between demand- and supply-based approaches is a positive feature, but more research would be needed on this point.

- (ii) Transparency and accountability to the executive and legislative branches of the government, external donors and the news media are essential. Information on SN performance is extremely difficult to obtain in some countries, even by officials or international agencies. Criteria for proposals, selection and evaluation should be clear, very well diffused, and implemented without any political discriminations. Bolivia's ESF is a model on these issues.

(c) Autonomy

This appears to be another crucial feature for SNs success.⁶ But a high degree of autonomy should not be an impediment for another key element of success, namely the strong commitment and support of the head of government (President, Prime Minister) to the SN, together with the legal obligation of all related government agencies to help the SN achieve its

^{6/} On the basis of a rough ranking of all 29 SNs in terms of their degree of autonomy and of a more specific evaluation in the case studies based on seven indicators of autonomy, the resulting ranking was: high in Bolivia (both programmes) and Honduras; relatively high in Chile; medium in Egypt and Ghana; low in Mexico; and none in Costa Rica.

goals. Such support, however, should be completely free of political interference - another golden rule. The SN, nevertheless, should not turn this advantage into an irritating privilege, that could alienate the central ministries and preclude their help. Good communication and avoidance of rivalries are, therefore, important. SNs that combine these features (autonomy, support from the top, and good relations) have performed well (e.g. Bolivia, Honduras, Chile).

(d) Staff and management efficiency

- (i) Directors of SN should be experienced, independent, politically neutral and, preferably, coming from outside the government (business, NGOs). Successful SNs invariably have highly-skilled, experienced, well paid and motivated personnel. For that purpose they should be exempted from civil service regulations. Recruitment and promotion should be exclusively based on merit without political interference. Payment should be competitive with the private sector and according to actual performance. Training of part of the staff to cope with new problems and tasks is essential. The staff should be supported by appropriate equipment and an effective management information system to track and control thousands of projects.
- (ii) On the basis of a comparative analysis of staff efficiency in five SNs, based on two rough indicators (i.e. the average amount of funds managed by employee and the average number of projects handled by employee),⁷ Bolivia's ESF and Chile were ranked best, followed by Bolivia SIF (but substantially below ESF), Honduras, and Egypt last. Data on administrative costs as a percentage of total expenditures, correlated with results of the staff-efficiency analysis, show that the average size of projects (in U.S. dollars) were highest in Egypt, and lowest in Chile and Bolivia ESF, suggesting that the latter two countries rely more than the former on small-scale projects that are easier to manage by NGOs, micro-enterprises etc. Several national evaluation studies have noted the lack of regular monitoring of SN personnel and recommended that, before hiring new employees, such evaluation should be undertaken and a more rational re-allocation of personnel tried first.

(e) Rapid start and action

Significant delays in starting operations were found in one third of the SNs: two-year delays occurred in Egypt and Ghana; a slow start and delays in approval of contracts were reported by Chile; and Honduras had a rapid start in setting up the operations but suffers delays in awarding contracts in 40 per cent of the cases. The causes of these problems are both external (related to donors, see next sub-section), and internal such as excessive centralization, cumbersome procedures, poor information and accounting deficiencies. These delays have had negative effects: postponing the desperately needed help to the poor, increasing the costs of projects due to inflation (which in turn forces either cuts in some of

^{7/} Caution should be exercised in the use of these indicators as they do not take into account complexity, quality and success/failure of projects.

the projects or the request for additional funding), and projection of a bad image of the SN. It is essential to detect the causes of these problems and to correct them rapidly.

(f) Adequate monitoring and evaluation

These seem to be the weakest two functions of SNs, even among the most successful, and their improvement should be a first priority. Ways to improve these functions could include: direct assessment by beneficiaries (e.g. Bolivia ESF); surveys of NGOs, social organizations and beneficiaries (e.g. Bolivia, Chile); and assessments by outside experts. Chile conducted in 1992 a series of comprehensive detailed reports (mostly by outside consultants) on virtually all its SIF components, which provide extremely useful information on success and problems - a model that could be followed by other countries.

D. Financing and sustainability

25. In some SNs the demand for funds is higher than their supply and in other countries the opposite is true. Such imbalances are often caused by donors' delay in disbursement of funds or by internal administrative incapacity to manage disbursed funds. Both situations indicate the need of adequate financial planning to set national guidelines and priorities as well as better coordination with donors.

26. Latin American SNs enjoy higher financing than their African counterparts. Within the former, Mexico has the highest annual amount (US \$2 billion to 3 billion), followed by Venezuela (\$1 billion); the range in the rest is \$18 to \$50 million per year. In Africa, Egypt has the highest amount (\$112 million) and the rest ranges from \$7 million to \$49 million annually. SN funding, as a percentage of GDP and government expenditure in the six case studies on which this note is based, ranges from 1.6 per cent and 9.6 per cent in Honduras, to 0.1 per cent and 0.5 per cent in Chile. The three sources of financing are: external donors, government and counterparts (managing agencies and beneficiaries). There is a serious vacuum as regards precise and standardized data on contributions by source.

27. The dependency of SNs on external financing is generally very high. It is higher in Africa (on average, 88 per cent of total funding) than in Latin America (72 per cent of total funding). Such dependency makes SNs highly vulnerable to changes and delays in external financing, and induces costly disagreements with donors. The greater the numbers of donors and the smaller their financing shares, the more difficult is the process of negotiation, approval and disbursement of funds, and vice versa. Bolivia was the ESF pioneer in Latin America; it had only eight donors and three of them provided more than half of the external funding; negotiations and disbursement of funds were accomplished in a few months, one sixth of the average time. Conversely, Ghana, the SAP pioneer in Africa, had twice as many donors, each with relatively small financing shares, and there was a delay of more than two years to receive the first funds. Donors insisted on funding specific projects in Ghana, instead of on general investment, and disagreements ensued; some projects had several donors

and others none. It is fundamental that donors give funding to the entire SN programme, provided that specific projects follow a previously agreed criteria among all parties.

28. Governments are the second source of SNs funding but, in 60 per cent of them, they provide only 15 per cent or less of total financing: the average share in Africa is 10 per cent while in Latin America it is 25 per cent. There are wide differences among SNs, ranging from Mexico's SN where the government budget is the only source of financing to Ghana's SN where the Government provides only 6 per cent of its financing. Government financing to SNs could be enhanced through various means such as: a tax reform that would shift from indirect regressive taxes (mostly sales) towards direct progressive taxes (on income, capital gains), but this would first require an increase in the efficiency of tax collection; revenue from privatization (e.g. in Mexico, Venezuela); conversion of external debt into social projects (Chile, Dominican Republic, Ecuador); redirection of government expenditures (e.g. away from subsidies for enterprises and prices towards basic social services to be delivered by SNs); and earmarking of revenue from current or new taxes (e.g. taxes on oil in Venezuela).

29. As regards counterparts, apparently the large majority of managing agencies and beneficiaries do not contribute to SNs (at least this is what the available data suggest). The average counterpart share in Latin America is 8 per cent and only 1 per cent in Africa. In Bolivia the counterpart share is 22 per cent or 23 per cent, while in Honduras it is 10 per cent, there is an unspecified contribution in Chile, and in Mexico the share is sometimes paid through labour by the beneficiaries. Apparently there are no counterpart contributions in Egypt and Ghana. A minimum counterpart contribution should be established in all SNs; it should be in cash and should be higher for managing agencies, particularly if they are profit-seeking, and lower for beneficiaries, either in cash or labour or a combination of both.

30. Sustainability tends to be high in SAPs because they are integrated with the central ministries and hence have higher chances of assuring the needed funds for the future. ESFs usually have lower sustainability because they are short-term institutions, highly autonomous and their coordination with central ministries is low. SIFs are somewhere in between as they are longer-term, sustainability is a major concern of them, and they have fair linkages with the central ministries.

31. Sustainability may be improved through: use of accumulated knowledge in SNs to strengthen and improve the efficiency of central ministries; securing from central ministries that they budget the needed resources for future staffing and operation of projects (e.g. construction of new schools, and rural posts) after SN disappearance; increase of the capacity of the non-government sector and selection of projects which have greater chances for sustainability (e.g. low recurrent costs, rehabilitation rather than construction of infrastructure); selection of NGOs and other managing agencies with a good record on sustainability and cost sharing; and empowering key ministries represented at the SN board to veto projects that have not secured the required future funding from such ministries.

32. Active involvement of NGOs in SNs' operations is highly recommendable because they reach the poor, detect their needs and properly adapt SN projects, raise counterpart financing and have lower operational costs, and enhance sustainability. But these organizations often face two main problems: first, they have limited managerial capacity (except in large-scale businesses) as they do not have enough resources to hire skilled personnel and, hence, are less competitive to prepare proposals and manage projects (particularly in rural areas); and secondly, there is often friction and distrust between these organizations and the government which tries to control them politically.

33. The degree of non-government participation in managing projects varies but it is always a minority: 25 per cent in Bolivia ESF (that was politically neutral and very successful in breaking previous distrust), 29 per cent in Bolivia SIF, 22 per cent in Honduras, and very limited in Egypt and Ghana. It has been argued that the smaller participation of these organizations in African SNs is due to a lower level of development in the latter, and yet in Bolivia and Honduras there is a high participation of such organizations, while in Egypt and Ghana there is very little. These two pairs of countries have similar levels of development. Policies and government attitudes, therefore, seem to explain those differences.

34. The following measures may contribute to enhancing NGOs' participation: introduction of a national legal-financial framework to facilitate the creation and expansion of these organizations; the government and SN should abstain from political control or interference in their internal affairs; involvement of these organizations in the design of the SN and its subsequent policies, and ensuring their representation in the SN board; strengthening the capacity of these organizations to prepare proposals and manage projects; wide diffusion, among those organizations, of information on competition for proposals and criteria for project selection; incorporating some good employees of these organizations into the SN staff; and evaluating the performance of such organizations and replicating successful models.

E. Concluding remarks

35. This section has tried to identify SN success stories, mediocre performance and failures. The most successful and copied model has undoubtedly been Bolivia's ESF. Among the plethora of successors, Honduras and El Salvador show a good performance, and the former has introduced some positive new features. Conversely, Egypt's ESF suffers from several flaws. SIFs in Bolivia and Chile have a new approach and seem to be working well, particularly the former. Ghana's pioneering SAP, widely copied in Africa, raised many expectations, but most of them did not materialize. Mexico's SAP has certainly spent enormous resources but is difficult to assert that it is a successful countermodel. Additional research would also be needed into successful SNs in Africa (e.g. Guinea Bissau, Sao Tome and Principe, Senegal AGETIP and Zambia) to develop a more representative and balanced view of their performance.

36. The essential ingredients in most successful SNs (mainly ESFs and SIFs) appear to be: massive targeting of the poor; complementarity and a fair degree of coordination with central ministries; autonomy, transparency and intermediary role; skilled, efficient, well paid and motivated personnel, led by a competent,

independent director preferably coming from the private sector or NGOs; strong support from the head of the State and other government agencies but without political interference; political neutrality in SN hiring of personnel, selection of projects and dealing with managing agencies and beneficiaries; selection of projects that maximize employment creation and income generation at relatively low costs, development of basic infrastructure, and delivery of basic social services mostly used by the poor; adequate external financing and rapid disbursement; high sustainability of projects; and decentralization, strong participation of non-government organizations and expansion of the latter's capacity.

37. The comparison of four country case studies, namely Bolivia and Honduras in Latin America and Egypt and Ghana in Africa, shows that the impact on poverty alleviation in the former is from 8 to 64 times higher than in the latter. These different outcomes appear to be more a result of policy and targeting than of divergent socio-economic development, poverty magnitudes and amounts of financing. The role of the leadership and its true commitment to poverty alleviation, as well as the degrees of political/economic stability, could be further explanatory factors of the outcome. The conclusions of this section are only tentative and much more research on these issues is required. But they point to the fact that the policy option for truly alleviating poverty is open instead of determined by fatalistic factors of the environment which are uncontrollable by human will and ingenuity.

38. In the light of the above, the Intergovernmental Group of Experts may wish to consider the following questions:

- (i) What are the roles that should be assigned to SNs within the overall development strategy of a particular country? Should SNs aim at providing emergency relief during periods of retrenchment or should they be assigned a bigger role in the allocation of social and transfer expenditures on a more regular and permanent basis? The above consideration would determine whether SNs should be permanent or transitional.
- (ii) Even without structural adjustment or economic crisis, SNs are vital to the well-being of the poor, and to withdraw them even temporarily might cause extreme deprivation. At the same time, adjustment takes time to generate growth and income opportunities that can reach the poor. How should SNs be formulated, implemented and integrated in the framework of a country's development strategy? This raises the issues of the continuum of SNs and their consistency with development programmes and strategies.
- (iii) Should SNs focus exclusively on the structurally poor, or on both the newly poor and the borderline groups pushed into poverty?
- (iv) SNs entail income transfers among different groups. Those who lose may well be able to mount enough political pressure to scuttle the whole social programme. How best can political support be mobilized to sustain SNs?

- (v) In view of the diversity of national experiences, and the socio-economic, political and administrative environment that prevail in each case, can a consensus be reached on what constitutes an effective SN for the poor? If not, would it be preferable to build on national traditional systems in order to meet the different and divergent needs of each target group?

III. MOBILIZATION OF DOMESTIC RESOURCES FOR POVERTY ALLEVIATION

39. Developing countries are now facing an urgent need to mobilize domestic resources because of declines in financial inflows, which have resulted from a number of factors, including high indebtedness and slow growth in official development assistance. There is a pressing need for investment, particularly in the agricultural sector and other sectors directly related to the livelihood of the poor. The gap between the investment required to attain the objectives of poverty reduction and its alleviation and the domestic savings available in many developing countries underscore the role of domestic resource mobilization, which calls for policies and actions concerning both the public and private sectors. The analysis in section II above points to the importance of the public sector in the provision of safety nets and to the need for increasing the reliance on domestic resources (see in particular para.28).

A. Public sector mobilization efforts

40. Public sector mobilization efforts affect both the prospect for further economic growth and the scope for general and targeted programmes for the poor. They involve raising the saving rate and ensuring that the available resources are used efficiently and ultimately benefit the poor.

41. Public savings, in the narrow sense, are defined as the excess of current revenues over current expenditures in annual budgets. The two factors which in most developing countries depress, in varying degrees, the contribution of the public sector to domestic savings are pressures on governments to increase current expenditures from year to year, and the political and administrative difficulties of raising tax revenues. On average, government savings account for a modest 25 per cent of total savings, or about 2-3 per cent of GDP in most developing countries, but there is a wide range of inter-country variations.

42. In many developing countries where the tax base is narrow and inelastic, governments depend on seigniorage to fill up the revenue shortfall. Such a money-creating alternative to borrowing from the banking system may have undesirable consequences on private savings habits and propensities and the distribution of income.

43. Governments may be able to raise additional savings by holding back current expenditures on production and consumption of goods that have little economic rationale, and by eliminating unnecessary subsidies and weeding out other low-productivity non-developmental expenditures. Public enterprises are another aspect of public sector performance, which constitute a drain on government resources, particularly when administered prices are below cost and when there is bureaucratic control and political pressure.

1. Fiscal measures

44. Fiscal policies may affect the distribution of income in favour of, or against, the poor. In developing countries with low per capita income, weak administration, and social attitudes not always conducive to tax compliance, the urgent task is to improve tax collection. This proves to be difficult where the tax system is unnecessarily complex and cumbersome or relatively inelastic with respect to changes in income. In some Asian developing countries - for example the Republic of Korea, Sri Lanka, Bangladesh, Nepal and Pakistan - Governments have made considerable improvements in tax collection efforts.⁸

45. Many developing countries, particularly the least developed countries (LDCs), generate the bulk of domestic revenue through taxes.⁹ International trade (import tariffs and export taxes on agricultural commodities) account for an important share of tax revenue (for example, over 75 per cent in The Gambia and in Uganda). This dependence often renders their budgets highly vulnerable to fluctuations in international trade and commodity prices, with consequent instability of revenue generation. Moreover, structural adjustment programmes and stabilization policies usually include the lowering of tariffs and phasing out of export taxes, often resulting in a significant loss of revenue as usually there are no feasible immediate alternatives to taxes on international trade.

46. To counter this decline in revenues from taxes on international trade, many countries have carried out reforms of the tax structure involving both direct and indirect taxes and have enhanced, in particular, revenues from direct taxes on income and wealth, both personal and corporate. Emphasis has been on moving away from production taxes to consumption taxes which are considered to be less distortional.

2. Reforming the tax structure in favour of the poor

47. Central government taxes on personal income and household expenditure affect the distribution of disposable incomes. A tax system can redistribute personal income in an absolute sense by taking absolutely larger amounts from the better-off than from the poorer members of the population, provided the benefits arising from government spending of tax revenue are not distributed according to the amount paid in taxes.¹⁰

48. Many of the poorer countries have direct taxation concentrating on the formal sector. In general, these taxes are regressive, and accompanied by greater evasion of the more progressive tax by higher income groups. The incidence of indirect taxes is also regressive at least as between different

^{8/} See, for instance, Basil J. Moore et al: Domestic Savings in Selected Developing Asian Countries, Asian Development Bank Economic Staff Paper No. 2, Manila, Philippines.

^{9/} The information in this paragraph and the next is adapted from chapter III of The Least Developed Countries 1992 Report, United Nations, New York, 1993.

^{10/} In most developing countries, it is not always certain that the poor derive as much benefit as the rich from public expenditure, but this is a problem to be tackled from the expenditure side of the government budget.

income groups - for instance between the poorest households in the lower-income brackets and those in the higher-income brackets.¹¹ From an equity point of view, progressive direct taxes, are preferred over indirect taxes but from the point of view of increasing savings, it is not clear which type of tax is to be preferred.¹²

49. Tax reform, particularly through reducing tax avoidance and tax evasion by closing loopholes and simplifying procedures, can raise extra resources for the social sectors. According to the UNDP Human Development Report, 1991, Ghana and Jamaica, for instance, have raised their tax revenue considerably through improved tax collection. In some cases, countries have reported introducing special taxes to finance social expenditure.¹³

3. Public expenditure

50. The economic crisis and the ensuing adjustment programmes in the 1980s are estimated to have imposed a heavy cost on the poor and other vulnerable groups such as women and children. Moreover, the reduction in expenditure on subsidies has often undermined their consumption¹⁴ and those on health and education have affected their current welfare and future human capital. The recognition of this heavy cost has led to the consideration of measures that could mitigate these costs as an integral part of structural adjustment programmes.

51. Intra-sectoral allocations of government expenditure have a profound impact on the welfare of the poor. In the education sector, the issue is the competition between primary and higher schooling. In the case of health and related services, the important distinction is largely between primary health care and more expensive hospital-based curative medicine. Primary health care facilities are more beneficial to the poor than expensive hospitals which tend to benefit a few; likewise, cheaper or free universal education as opposed to highly subsidized university education that reaches a small proportion of the population. The evidence from most developing areas is that secondary education and hospital-based health care have been receiving considerably higher levels of government financial support than primary education and primary health care.

^{11/} Livingstone and H. W. Ord: Economics for Eastern Africa, chapter 35, Heinemann, Nairobi.

^{12/} If the demand for a product on which a sales tax has been levied is price-elastic then indirect taxes are likely to reduce consumption and increase savings. On the other hand, if demand is price-inelastic, then private savings could decrease, offsetting any increase in government savings.

^{13/} Brazil, for instance, has created a special fund for its programmes in health, nutrition and education and for the support of small-scale farmers, financed by 0.5 per cent surtax on sales and a 5 per cent surcharge on corporate income tax. Pakistan levied a 5 per cent surcharge on its imports to finance high priority projects in education.

^{14/} In so far as subsidies benefited them. Many subsidies, however, do not benefit the poor directly (see section II.B.3).

52. It is in this context that one must consider the extent to which reductions and stagnation in social expenditures can directly harm the poor and, more important, whether policy reform can in fact correct the inequities in the allocation of government social expenditures. For example, the UNDP Human Development Report, 1991 estimates that social expenditures need 25 to 30 per cent of the total development allocations to maintain a proper balance between economic and social progress. Many developing countries still fall short of this level. This is particularly serious in those countries that have a legacy of neglect of the social sectors.

53. Experience also shows that, as with most other subsidies, health and education subsidies are rationed, so that a large number of potential users do not have access to them. Moreover, in general a disproportionate share of the rationed social service subsidies has been allocated to urban areas and better-off households. The few budget surveys that are available show that the poor are often served by charities and privately run institutions, be it the Catholic-run health posts as in Senegal or the traditional village healers. Government-run programmes are either absent or often of such low quality as to discourage utilization.¹⁵

54. In many cases, moving to a system of cost recovery is likely to have advantages for the poor. Such a system affords the opportunity for increasing revenues, and thus enabling governments to expand services and improve their quality. Furthermore, it should be emphasized that the major barriers to the poor's use of public services is usually not the monetary cost but rather unavailability and inaccessibility. User fees may release funds to finance expenditures with externalities, such as immunizations and AIDs control, that deserve to be subsidized and will probably be of special benefit to the poor. A caveat is that the poorest of the poor, if faced with user charges, will not seek help until the ailment is far advanced.

B. Mobilization of savings by the private sector

55. Corporate savings tend to be limited in many developing countries, especially the low-income countries, because of the smallness of the private sector. The bulk of savings is held by the non-corporate sector: households and unincorporated businesses. Effective resource mobilization by the private sector would require encouraging the households to hold the major part of their savings in the form of financial assets, and to replace direct, personal and informal credit transactions by indirect, formal credit arrangements.

1. Commercial banks

56. Commercial bank lending in developing countries has tended to cluster in urban conglomerations and concentrate on funding large farming enterprises, consumer-based industries and the foreign-trade sector.

^{15/} Because of low quality, however, an important point that can be made is that primary education and health expenditures have mostly "benefited" the poor, as the non-poor avail themselves of private sector alternatives which are of better quality.

57. Overall, it is clear that formal financial institutions are suited to meet the demand for large and long-term credit because of their reliance upon the pooling of funds from deposits and maturity transformation, and because they can also exploit economies of scale and of scope in their operations. Their structure is conducive to meeting the financial needs of larger industrial and commercial units, as well as those of affluent households, but they are not suitable for providing financial services to small farmers, small-scale entrepreneurs and the poor.

2. Credit for rural development

58. Often, existing financial markets and institutions have been perceived to be inadequate to meet the financial requirements for agricultural development and the savings capacity of small farmers deemed to be negligible by policy-makers. The principal sources of funds for agriculture in rural areas include the commercial banks, the specialized national credit and development institutions, cooperatives and the informal sector. An additional source in many countries are remittances from urban areas. Most relevant for the poor are informal credit markets, small farm credit programmes, traditional lenders and credit programmes as well as the institutionalization of the informal sector.

59. Until the early 1980s, in most developing countries, these policies and programmes had focused mainly on public intervention to fix product prices, create cooperative structures and establish monopoly commodity marketing and input supply and distribution systems. They had been based on the need to provide the major inputs - mineral fertilizers, improved seeds and agro-chemicals at the lowest cost so as to encourage greater use of the inputs. Extensive use was made of parastatal and cooperative enterprises for input distribution. The provision of large subsidies by the State became an important instrument for sustaining the operations of these institutions which supplied the inputs at very low cost to the farmer. The experience with this approach offers clear lessons. One is that large-scale and across-the-board subsidies do not necessarily improve poor people's access to credit or savings. Another is that subsidized credit, without incentives and infrastructure, is likely to remain debt as borrowers have limited options for productive investments.

60. At the same time, certain governments have pursued a top-down approach to rural finance, the objective being to improve the availability of agricultural credit services to small farmers, livestock producers and other specific vulnerable groups, including women. The main policy instrument employed to attain this goal was the creation of government-owned agricultural credit banks (agricultural cooperatives and development banks) financed mainly from external aid programmes, but also from budgetary/Central Bank resources, and targeted to specific farmer groups and applying fixed, subsidized interest rates. Another instrument was the integration of agricultural credit into rural development projects.

61. The operations of these government-owned credit institutions or of the commercial banks have not always contributed to the building of viable financial institutions for the poor. Low product prices, lack of appropriate technological packages, lack of marketing including input services and infrastructure and governments' insistence that the interest charged by the banks be kept low, have

all been major constraints to developing effective agricultural credit programmes. In these circumstances, formal financial institutions have not reached the mainly poor people.

62. Experience as well as pressure from international financing agencies have, in recent years, sparked off the need for change in policies and programmes for input supply and rural finance. The period since 1985 or later has, therefore, seen many countries experimenting with new ideas. Many countries are now pursuing a bottom-up approach to rural finance and credit to small farmers, livestock raisers and women which focuses on savings mobilization, a demand-led finance policy and viability of the institutions.

63. In rural areas, which are generally ill-served by credit services, the supply of credit to the poor - whether engaged in agricultural production or in other economic activities - depends on the development of lending institutions. In most cases, rural credit institutions are geared to farmers who own land and usually insist on real estate or physical assets as a collateral. Very small farmers and the landless rural poor by definition simply do not have this collateral. One way to increase the access of the poor to credit would be through specialized banks, including agricultural banks, cooperatives and semi-formal credit agencies.

3. Specialized agricultural banks

64. Specialized agricultural banks have distinctive functions and requirements which include the supervision of the productive activities of their clientele, a rigorous project appraisal exercise, different performance criteria and different skill requirements for their staff. They rely heavily on foreign loans and government contributions. They are financial intermediaries in the very restricted sense that they extend credit but rarely mobilize savings. They face a number of problems, starting with often non-performing loans. Moreover, their fixed interest rates barely cover their average operating costs, and are rarely revised to allow for prevailing levels of inflation. As a result, the purchasing power of their portfolios tends to diminish.

65. It appears thus that, like the commercial banking system, the specialized agricultural banks have not, in general, had an appreciable impact on smallholder agriculture.¹⁶ Loans are usually channelled to big commercial farmers while the small unmechanized, rain-fed agricultural operations tend to be neglected.

4. Cooperatives

66. With rare exceptions, the cooperative movement, which was intended to spearhead a process of rural transformation, has been unsuccessful, and has not been associated with desired increases in rural incomes. (In the United Republic of Tanzania, where there is a strong government commitment to the cooperative

^{16/} Abu-Shaikha, Ahmad, "Towards the Alleviation of Rural Poverty in the Sudan", WCARRD Follow-up Programme: In-depth Studies Series No.1, FAO, July 1983; quoted by ECA, Agricultural Credit and The Mobilization of resources in rural Africa, ECA, Addis Ababa, May 1986.

system of production, the past years have witnessed continuing declines in output and hence incomes).¹⁷ An ILO study on cooperatives also concluded that they were not often successful in motivating and mobilizing their membership.¹⁸

67. Some of the problems that seem to be widely prevalent in cooperatives and affect their efficiency in general, and for the poor in particular, are: (a) a hasty launching of cooperatives, usually before the members understand them; (b) an inexperienced management; (c) units that cannot support themselves financially; (d) a lack of supporting infrastructure, including training and financial facilities, extension services, legislation, etc.; (e) top-down politico-bureaucratic channels; and (f) lack of incentives.

5. The informal sector

68. The above shows that, in general, the structure of formal institutions is inadequate to provide financial services for small farmers, small-scale entrepreneurs and the poor. A promising approach to resource mobilization by the private sector is based on a different premise. Instead of focusing on traditional financial intermediation, the approach focuses on removing other barriers to resource mobilization by and for the poor. These barriers include, for example, insurmountable collateral requirements, adverse selection, and low levels of literacy and numeracy among the poor that constrain their access to formal sectors. Saving institutions are both informal and quasi-formal.

69. Informal finance includes family and friends who provide most of the savings facilities and loans to the poor, money-lenders and pawn-brokers and saving and loan associations. Informal financial agents, for example, know their clients better than formal banks do, which reduces information costs; but despite their popularity and potential, most informal finance arrangements have limitations. They are segmented from larger markets, which reduces competition and limits their ability to mobilize resources.

70. Quasi-formal alternatives may give greater scope for expansion. Over the last 10-15 years, a number of quasi-formal programmes, such as the Grameen Bank in Bangladesh, and Badan Kredit Kecamatan in Indonesia, have given poor people access to financial services and therefore facilitated resource mobilization. Certain characteristics of the quasi-formal finance seem to appeal to poor people:

- (i) low transaction costs;
- (ii) the immediacy of deposit and disbursement;
- (iii) the lender's willingness to extend small loans; and

^{17/} Economic Commission for Africa, Report of the Regional Expert Consultation on the Role of Rural Cooperatives in the Productive Sectors in Africa, (ECA/SDEHSD/IRB/85/Rpt), October 1985.

^{18/} ILO, "Cooperatives in Food Production with Particular Reference to Food Storage and Security", ILO paper presented at the Regional Expert Consultation on the Role of Rural Cooperatives in the Productive Sectors in Africa, Addis Ababa, Ethiopia, October 1985.

- (iv) flexible repayment schedules because the financier is familiar with the borrower's situation.

71. Unfortunately, Governments tend to be wary of the informal sector, which they see as undermining both financial sector policies and monetary policies. In general, interest rates and credit availability in the informal sector tend to respond to aggregate monetary policy in the intended direction, as strong linkages existed between the two sectors.

72. The main advantage of the informal sector, as indicated above, lies in its lower transaction costs, which results from the specialization in small loans and clients. The lower costs can also be attributed to absence of legal reserve requirements and to the minimal regulation in relation to those in the formal sector. Informal entrepreneurs' lower costs may result from such factors as not paying pay-roll taxes, observing minimum wage regulations, disregard of building standards, sanitary regulations, property taxes, etc.

73. Group finance has evolved in many developing countries into an important form of informal credit through the pooling of savings deposits to generate funds for lending to members, or sometimes to non-members as well. It provides access to credit for group members and also the incentive and means to save in financial assets. The funds are sometimes deposited in formal financial institutions. These groups are found in both rural and urban areas of lower-income developing countries. Some fall into the category of rotating savings and credit associations (ROSCAs). ROSCAs are found in every continent. They are known by various names: contribution club, slate, mutual lending society, pooling club, thrift groups, friendly society, rotating credit association, temporary loan association and tontine.¹⁹

74. The expansion in the practice as well as in the types of ROSCAs definitely points towards a lack of - and therefore a demand for - two forms of economic system: (i) a simple and convenient outlet for savings; and (ii) a convenient meeting point between deficit and surplus units, which provide attractive yields to surplus units.

6. Market-oriented approach to credit and savings for the poor

75. Credit programmes for the poor have generally been set up on the assumption that the poor cannot pay the real cost of credit and that the poor cannot save. Accordingly, credit schemes have involved subsidized rates of interest and there has been a tendency to create solely credit programmes instead of offering a viable arrangement that would enable the poor to accumulate savings as well. These schemes have also been characterized by an orientation towards social welfare in terms of staff skills and attitude. In other words, the poor have been seen as "beneficiaries" rather than "clients". While there are understandable reasons for this approach, experience shows that it has not been particularly effective as recovery rates have been generally low, and mobilization of savings have also been low. This approach delayed the

^{19/} R. T. Anderson, (1966) "Rotating credit Associations in India", Economic Development and Cultural Change, Volume XIV.

development of a commercial or a cost-effective method of credit delivery and has led to a rapid depletion of the value of loan funds.

76. Studies²⁰ indicate that a more commercial approach to the provision of credit and mobilization of savings will tend to provide financial services that meet the needs of the poor, have good recovery, mobilize savings and become sustainable. Examples of successful projects such as the Grameen Bank (Bangladesh), the Bank Rakyat (Indonesia) and Predom (Bolivia) all illustrate that the quasi-formal commercial approach can be effective.

77. Cases such as the three cited above point to the fact that, although as in the case of Grameen subsidy exists, borrowers could pay a rate that would make the bank profitable. The recovery rate of loans is recorded at 99 per cent - a rate which regular banks in Bangladesh, where the average rate of default is particularly high, have never approached. Moreover, evidence indicates that substantial savings can be generated by the poor, including, *inter-alia*, through "forced" savings, such as deductions on loans, as in the case of the Grameen and Predom Banks. These small loans have proved to be very effective in reaching the poor.

C. Concluding remarks

78. The issue of what are the determinants of household savings is crucial to domestic mobilization of resources. There is a need, at the individual country level, to identify the significant determinants of savings and the policy implications. Some countries have demonstrated an ability to generate high rates of savings despite institutional and behavioural obstacles to savings mobilization. It would be instructive to examine how such deterrents were overcome in order to facilitate a useful exchange of experiences. In dealing with the poor, it might be useful to examine not only the level and rate of savings as policy targets, but the forms of savings as well, which might in turn increase the size of total savings. There are many forms of non-financial savings (e.g. rice banks) that have served the poor well and need to be encouraged. They might be institutionalized.

79. It would appear that an effective strategy would be to promote and facilitate the mobilization of household savings and the efficient allocation of credit, with emphasis on improving the access of small farmers and entrepreneurs to financial services. Funds must be mobilized from the domestic non-corporate sector, which is a net saver. This entails the existence of a growing and efficient financial intermediation.

80. There are four major building blocks in the development of such an efficient and sound financial system: restructuring of non-viable institutions; building of financial infrastructure; a supportive policy environment; and institutional development. There is evidence that the commercial approach might be more viable on a sustained basis than the often favoured approach that

^{20/} Henry R. Jackelen and Elisabeth Rhyne, "Towards a More Market-Oriented Approach to Credit and Savings for the Poor", Mimeo (USAID and UNCDF). See also The Least Developed Countries Report 1991, pp. 102-104.

emphasizes subsidized credit, and more successful in promoting the development of the poor sectors of the economy in developing countries.

81. The Intergovernmental Group of Experts may wish to address the following questions :

- (i) What are the main impediments to an enlarged access of the poor to credit? What measures should be adopted to remove these impediments in the various banking institutions operating in rural areas and informal sectors (e.g. improvement of credit/loan conditions and guarantee schemes according to the activities to be financed, specific targeting of vulnerable groups)?
- (ii) What kind of experiences have been gained in establishing a complementarity between the various financing practices such as group versus individual approaches and the various traditional types of credit activities (conventional banks, community development funds, NGO initiatives, etc.)?
- (iii) How can access to credit schemes by potential entrepreneurs among the urban poor be increased so as to facilitate initial investments? How to eliminate adverse selection by traditional financial institutions against such types of lending? How to facilitate the activities of NGOs and community initiatives which can provide credit to groups involved in urban productive projects?

82. It is important that policy planners and practitioners realize that increased resources nationally will not automatically translate into increased flow of resources to the poor. In fact, more often than not, fiscal policies may affect distribution of income in a manner that does not favour the poor. Purposeful government action is necessary to ensure that the poor receive the resources necessary to improve their lot within the budgetary constraints that every country faces. In this context, important issues which the Intergovernmental Group may wish to discuss are:

- (i) What are the scope, ways and means for improving tax collection (and diminishing tax evasion), keeping in mind a poverty alleviation perspective?
- (ii) How could tax structures be reformed so as to enhance revenue mobilization, while ensuring that they are not regressive?

83. It is also important to ensure that reductions and stagnation in social expenditures do not disproportionately harm the poor. Equally important, the necessary policy reforms must be implemented to correct the inequities in the allocation of government social expenditures.

84. On the basis of their countries' experiences, members of the Intergovernmental Group of Experts may wish to examine the following:

- (i) The budget share which, across sectors, is devoted to rural development, especially in countries where poverty is mainly rural.

- (ii) The priority given, within each social sector, to protecting or expanding basic services (primary education, basic health care, family planning, extension services, roads in remote areas, etc.).
- (iii) The relative advantages of tax measures versus those of expenditure subsidies, as a means of income redistribution and poverty alleviation.
- (iv) The scope for a reduction of military spending in favour of social spending.

85. The Intergovernmental Group of Experts may also wish, when discussing budgetary policies and exchanging experiences thereon, to examine the revenue and expenditure side of the budget together, as the availability of policy instruments which are efficient at poverty alleviation through income redistribution strongly influences the role for the revenue-raising side of the budget. However, if poverty alleviation can be carried out more efficiently through universal or targeted social expenditure programmes, then tax policy may focus only on the efficiency aspect, without concern for the equity objective. It would thus be important to discuss the trade-offs, if any, between efficiency and equity, of different policy instruments.

IV. MOBILIZATION OF EXTERNAL RESOURCES FOR POVERTY ALLEVIATION

86. It was pointed out earlier that bilateral and multilateral donors have shown a great interest in funding safety nets that can successfully reach the target groups and make an impact on poverty. This section reviews those issues which relate to donor-recipient cooperation within the framework of an international partnership for the prevention, alleviation and reduction of poverty, and identify areas of convergence as well as problem areas on which members of the Intergovernmental Group of Experts on Poverty Alleviation might wish to exchange views and experiences, in order to contribute to an enhancement of a common understanding.

87. Although this section is principally concerned with action and views of donors only,²¹ recipients' perceptions are equally important. The meeting of the Intergovernmental Group of Experts provides an opportunity for the experts from recipient countries to present their views, on the basis of their own individual experiences, and to stress their needs with respect to the issues dealt with here and other related issues they deem to be important to this dialogue.

^{21/} It is based mainly on information from DAC donors and multilateral agencies like the World Bank and UNDP. This does not preclude recognizing the important role of other agencies of the United Nations system, the specialized agencies, the regional development banks and NGOs to which reference is made on several occasions in the text.

A. The role of aid

88. A main purpose of aid - at least in the general public's eyes in the donor countries, and which stimulates public support for it - is to help alleviate and reduce poverty. Aid can, indeed, do so, indirectly by supporting macro-economic and sectoral policies and programmes/projects which contribute to growth. Aid can also support policies and programmes/projects which directly attack poverty through direct income transfers, the provision of social/basic human needs services and the promotion of income-generating activities. This explains and justifies the frequent plea for more assistance, the agreement on aid targets by most DAC donors, and the dependency on aid and its indispensability in poor countries unable to mobilize sufficient domestic resources on their own. (In contrast with middle-income countries, most low-income countries and the least developed countries in particular have had very little access to private flows and rely almost exclusively on concessional finance to meet their external capital requirements). This note reviews both the direct and indirect roles of aid.

89. While it is generally agreed that viable anti-poverty strategies require increased assistance flows, the absorption problems that may arise and the potential disincentive effects of aid are also recognized. Issues related to the quality of aid are thus as important as those concerning its volume.

90. Another important issue is the degree of complementarity of aid programmes and projects to recipients' policies and programmes. This raises questions of dialogue and coordination for ensuring effective benefits to the poor and for optimizing the respective roles of the main actors, i.e. the various donors, bilateral and multilateral, as well as central and local government entities, NGOs, self-help movements among the poor, etc.

B. Recent trends in ODA flows and new donors' policies related to poverty alleviation

1. Overall ODA

91. In 1992, ODA from all sources to developing countries is estimated to have amounted to US\$ 58.3 billion, 98 per cent of which came from donors members of the Development Assistance Committee (DAC) and multilateral agencies mainly financed by them. With the end of the Cold War, DAC donors have emerged as the providers, through bilateral and multilateral channels, of the overwhelming share of ODA to developing countries, as aid flows from the former USSR and the countries of Eastern Europe quickly dried up, and aid from OPEC donors continued its downward trend, falling sharply in particular after the conflict in the Gulf. In addition, international NGOs (financed by voluntary private sources and official agencies in developed countries) have come to be regarded as the "third channel" of external resource flows to developing countries, still relatively small compared to overall ODA, but steadily increasing in recent years (in current and real terms) and especially relevant as development NGOs are generally poverty-focused and operate at the grass-roots level. (See annex table 4).

92. On the whole, ODA has grown at a slow pace. The availability and allocation of concessional resources has taken place in the context of, on the

one hand, major budgetary constraints faced by many donors and, on the other hand, growing global demands, buoyed by newly eligible or potentially eligible claimants for aid. In terms of donors' efforts (bilateral flows and contributions to multilateral agencies) ODA growth has tended to decelerate in recent years. In terms of developing countries' receipts (bilateral flows and flows from multilateral agencies) ODA growth has fluctuated, being twice negative in real terms during the 1990s (in 1990 and 1992). (See annex, table 1). ODA has not predominantly gone to low-income countries. ODA has grown at a slower pace for the poorest countries than for the other developing countries. In quantitative terms, aid receipts of poor countries and of countries with large segments of poor population have fallen short of their external capital requirements for reaching sustained growth and thereby reducing poverty. According to a recent note by the OECD/DAC secretariat, "on the basis of present plans, for several donors - including some of the larger ones - aid growth is likely to be lower than GNP growth, with the prospect of reduced ODA/GNP ratios".²²

93. A positive development however is that there has been no apparent weakening of DAC support to multilateral institutions. The share of DAC aid in form of contributions to multilateral agencies, while widely fluctuating from year to year, was close on the average in the 1990s to the average in the 1980s -and the share of multilateral disbursements in total ODA receipts of developing countries has been on the rise, close to 30 per cent in 1992.

2. Aid in support of social services for and to the poor

94. Available information does not permit an accurate assessment of trends in support of social services for and to the poor. Even estimating trends in aid to social services, such as primary health care and basic education, which are known to be of primary benefit to the poor, although not exclusively directed to them, is difficult.²³

95. Nevertheless, a broad indication of donors' relative support to social sectors can be derived from the Creditor Reporting System of OECD (CRS) data on official development finance commitments by purpose. These show that during the most recent years (1988 to 1991) for which data are available, the shares allocated to education, health, other social infrastructure and water sanitation and sewage generally increased, notably in the case of low-income countries and least developed countries. (See annex table 3 of document UNCTAD/PA/4). Also, the majority of DAC donors have been increasing their ODA share allocated to social and administrative infrastructure (on the average from 20.1 per cent in 1975/76 to 23.5 per cent in 1989/90). However, the largest bilateral donors, such as Japan and the United States, are among the donors which have provided

^{22/} See OECD, "Trends in the Volume and Orientations of Official Development Assistance from DAC Members", January 1993, p. 13.

^{23/} The DAC Creditor Reporting System (CRS) which is the most detailed in this respect provides only an incomplete record of flows for calculating sectoral aid allocations. Development Cooperation reports of UNDP and information from aid agencies are difficult to use (because of problems of comparability, classification, timeliness, etc.). Information from NGOs is very scanty.

the lowest shares to the social sector (respectively 18.9 and 15 per cent in 1989-90). Comparable figures for multilateral agencies show shares as high as 39 per cent for the United Nations agencies (including UNDP, UNICEF, UNWRA, WFP, UNHCR and UNFPA) and 32.1 per cent for IDA.²⁴

96. A more refined but less encouraging picture is given in UNDP's Human Development Reports which present four types of ratios, namely (i) aid/human expenditure ratios (the percentage of a donor's GNP going to human priority areas in recipient countries or the amount of official development assistance received for human priority areas expressed as a percentage of the recipient country's GNP); (ii) aid/social allocation ratio (the percentage of official development assistance that goes to the social sector); (iii) aid/social priority ratio (the percentage of social sector official development assistance that goes to human priority areas); and (iv) social priority aid, as percentage of total aid. Human priority areas relate to basic education, primary health care, safe drinking water, family planning and nutrition programmes. These ratios are calculated for individual and major groups of recipient countries, as well as for individual donors. Australia, Germany and Japan are the donors with the lowest ratios in 1988/89 (see annex table 5). UNDP proposes that "at least 20 % of total aid should be allocated to human priority concerns" (of primary benefit to the poor) "three times the present 6.5 %".²⁵

97. One reason for which bilateral donors may be reluctant to provide direct assistance for primary social concerns, such as primary health care and basic education, is that these are areas where recipient governments and local administrations are seen as bearing the primary responsibility. For donors to support social programmes and projects implies relatively less capital-intensive and administrative-intensive assistance (as compared to other types of programmes) but relatively more local and recurrent cost financing. Many donors traditionally prefer to finance the foreign exchange of investment costs and are reluctant to finance recurrent costs.

3. Targeted interventions and experiences with specific anti-poverty projects

98. Targeted interventions which benefit specific groups identified as belonging to the poorest sections of the population are especially relevant in countries with narrowly concentrated pockets of poverty (as opposed to low-income countries with widespread poverty). Experience with anti-poverty projects has shown, however, that benefits intended for the poorest are often captured by the middle-class.²⁶ Careful targeting is difficult and costly as it necessitates

^{24/} OECD, "Trends in the Volume and Orientations of Official Development Assistance from DAC members", Table 11, Paris, January 1993.

^{25/} See UNDP, Human Development Report, 1993, p.7.

^{26/} The World Bank, for its part, has stressed the difficulty of assessing the effect of aid projects on the poor, and has noted that sometimes assistance for specific anti-poverty projects indirectly finances undertakings that may not help the poor and may even hurt them.

surveys with disaggregated data, in the absence of reliable quantitative data.²⁷

99. For food subsidies, especially in the case of urban areas where the potential of diversion is greater, targeting can be achieved by choosing the commodities to be subsidized carefully or by locating distribution outlets in poor neighbourhoods.²⁸

100. Apart from difficulties in targeting, donors have experienced a number of difficulties in undertaking projects directly addressing poverty problems at the grass-root level. This has much to do with the administrative-intensive nature of projects whose disbursement might be quite small, problems of sustainability, the importance of involving local communities in enhancing the effectiveness of poor people at the local level in representing their own interests, and the possible reticence of recipient governments, as well as the need to take into account local realities. Building a significant technical assistance component into capital projects has been found to help cope with problems of sustainability. For the rest, many donors have opted to work through NGOs and other intermediaries; but in that case, further problems of impact and replicability have been found.

101. The reasons why many aid projects have proved to be ineffective include (i) lack of commitment to help the poor (resulting in diversion of benefits to the non-poor); (ii) macro-economic and sectoral policies (e.g. pricing policies in the agricultural sector and land-use policies in the urban areas) at variance with the objectives of the projects; (iii) frequent shifts in donors' concerns and policies which have often overshadowed the need for stable long-term strategies, and lack of coordination among donors; (iv) neglect of the institutional and managerial aspects of poverty-oriented projects; and (v) inadequate participation of the beneficiaries (local community organizations, organized groups of poor workers, borrowers, or women, etc.) and little attention given to socio-cultural and political factors in recipient countries.

102. Although views do not concord, areas where projects are considered by some to have been relatively successful are: agricultural research (particularly on crops grown predominantly by the poor) and extension; the introduction of high-yield varieties of food grains in Asia and especially India (the "Green Revolution"); irrigation that benefits many small farmers, especially in Asia; basic infrastructure in rural areas, especially farm-to-market roads in many low-income Sub-Saharan African countries; primary education, basic health care and nutrition; rural public schemes, and relief from natural and man-made disasters.

^{27/} In the absence of reliable quantitative data, qualitative information can also be used, at least to identify and localize the poor and target programmes for them. For instance, populations in certain regions, certain ethnic groups, displaced and refugee populations, households headed by women, and such functional groups as smallholder farmers, the landless in rural areas, nomadic pastoralists, and small-scale fishermen, are known to be specially vulnerable to poverty. See IFAD, The State of World Rural Poverty, pp. 45-46.

^{28/} See, The World Bank, Implementing the World Bank's Strategy to Reduce Poverty.

4. New orientations in DAC donors' principles, criteria and conditionalities

103. In December 1988, DAC Aid Ministers, joined by the heads of the World Bank, the IMF and UNDP, adopted a "Policy statement of development cooperation" embodying their aid policy orientations for the 1990s, which contained essential elements concerning aid and poverty.²⁹ In that same policy statement, collectively, DAC members agreed to seek further substantial increases in the aggregate level of aid and improve its quality and coordination. More recently, priority has been attached to issues of aid policy coherence among DAC members, and to the importance of developments in recipient countries as regards, *inter alia*, participatory development and good governance (including democratization and human rights), which are now seen as essential conditions for broad-based development and poverty reduction.³⁰

104. Although aid criteria and policies do vary from one donor to another, poverty reduction figures prominently among the objectives commonly cited in individual policy statements. Other objectives mentioned relate to human development, environmental protection, reduced military spending, efficient economic management, private enterprise development, enhancement of the role of women, good governance and democratic government, and the observance of human rights and the rule of law.³¹

^{29/} Relevant extracts include: "... the vicious circle of underdevelopment that links high population growth, poverty, malnutrition, illiteracy and environmental degradation can be broken only through economic and developmental strategies and policies which integrate the objectives and requirements of :

- Promoting sustainable economic growth;
- Enabling broader participation of all the people in the productive processes and a more equitable sharing of their benefits;
- Ensuring environmental sustainability and slowing population growth in those many countries where it is too high to permit sustainable development ...

... The developed and other economically advanced countries cannot live in isolated enclaves of prosperity in a world where other countries face growing mass poverty, economic and financial instability and environmental degradation. Not only is this unacceptable on humanitarian grounds; the future well-being of developed countries is linked to economic progress, preservation of the environment and peace and stability in the developing world ... In poorer developing countries in particular, with insufficient domestic financing and limited external debt-servicing capacities, official development assistance has an important role to play in laying the basis for improved growth."

^{30/} See, e.g. OECD, Development Cooperation, 1992 Report, Part I, Paris 1992, and OECD Press releases SG/PRESS (90) 76 of 4 December 1990, SG/PRESS (91) 72 of 4 December 1991, and SG/PRESS (92) 90 of 1 December 1992.

^{31/} See, e.g. World Bank, Global Economic Prospects and the Developing Countries, 1993, Washington, D.C., pp.49-50.

105. DAC donors' objectives and allocation criteria of aid have evolved with added conditionalities closely linked thereto. This means that recipient countries are now not only facing increasing competition for available funds (which are not growing fast enough owing to donors' budgetary constraints), but they have also to pursue certain objectives considered as indispensable by donors and to have these objectives within reach. Moreover, as always - in addition to general economic development objectives - commercial, political, humanitarian, historic and cultural interests have continued to influence aid allocations.

106. Moreover, DAC donors have undertaken basic aid research and adopted new policies in areas of direct relevance to poverty alleviation and reduction, in particular with respect to aid for basic education (as a follow-up of the outcome of the World Conference on Education for All, held in Jomtien, Thailand, in March 1990), aid for primary health care (as a follow-up of primary health care approach adopted in Alma Ata in 1978), and aid in support of micro-enterprises. These are reviewed in document UNCTAD/PA/4.

C. Concluding remarks

107. New guidelines have been designed (at the DAC level and at individual donor-country level) concerning basic principles and criteria of aid, and including guidelines in support of specific types of aid and sectors, geared to poverty alleviation and reduction. The World Bank has devised its own strategies and operational guidelines for poverty reduction. Other multilateral agencies, like IFAD, have done so too.

108. A salient feature of these new orientations is the increased emphasis laid in development cooperation on policy dialogue and aid coordination as they are considered indispensable instruments to enable donors to encourage appropriate policies. As for anti-poverty programmes, it is being argued that donors will best contribute by helping recipient Governments to devise and implement programmes - these should be innovative, replicable and low-cost with a wide impact among poor people - rather than by implementing specific projects themselves. In particular, "funding and support of domestically run programmes which aim to improve grass-root self-reliance, provide credit and other resources, support institution-building and training at all levels can have a strategic catalytic function".³² The switch from project to programme form has also the advantage of relieving a constraint on the absorptive capacity of the recipient country for projects.

109. Moreover, the importance of community participation in the design and implementation of anti-poverty programmes and projects is generally recognized by donors. Pursuing participatory approaches to poverty reduction within countries, with country counterparts, with donors and other official agencies, and with non-governmental organizations (NGOs) to ensure ownership of and

^{32/} See OECD, DAC Growth and Equity-Oriented Aid and Development Strategies, (87) 19, p.11.

sustained commitment to the poverty reduction strategy among all relevant partners, is a major preoccupation.³³

110. These new orientations are based on experiences at all levels (macro, sectoral and micro). Although no general statement can be made about the relationship between aid and growth, or between growth and poverty reduction, it is generally recognized that aid can be instrumental indirectly in reducing poverty through growth, when certain conditions are met. To support this process, aid for investment in public equipment and productive activities, by contributing directly to growth, is as necessary as aid to social services.

111. As regards interventions directly aimed at poverty alleviation and reduction, conditions that underpin the success of anti-poverty policies, programmes and projects have been identified and examples of successes are provided, for example in the reports of the World Bank referred to in this note, and in other major reports such as The State of World Rural Poverty of IFAD, and A World of Difference, a New Framework for Development Cooperation in the 1990s, issued by the Dutch Foreign Ministry. All of these reports, while being broadly in line with the emerging strategy for poverty alleviation outlined in the introduction to this note, show the complexity of the tasks to implement it and the diversity of options in terms of specific supporting programmes and projects. Notwithstanding certain commonalities among country needs, the optimum mix of these programmes and projects appears to be very much country-specific.³⁴

112. As an essential first step towards a country-specific approach, a comprehensive country poverty assessment would be required as well as a good understanding of anti-poverty policies and programmes being carried out within the country. The latter implies having appropriate officials, like sociologists and anthropologists, in aid agencies who can understand poverty issues and local conditions, and who would be able to communicate with local communities, NGOs and people's movements.

113. Moreover, as individual country situations and the variables of larger interdependencies are in a permanent flux, the findings in respect of successful experiences and their possible replicability must be carefully checked. Aid research, obviously, remains an on-going requirement.

^{33/} See, The World Bank, "Implementing the World Bank's Strategy to Reduce Poverty", op.cit., p.ix.

^{34/} Examples of commonalities are, for countries where poverty is widespread, an emphasis on overall development strategies geared to broad-based growth (The Programme of Action for the Least Developed Countries for the 1990s (document UNCTAD/RDP/LDC/58) is a case in point), and an emphasis on specific social programmes and target approaches for countries where poverty is concentrated on specific population groups or sub-regions. Commonalities of approaches to the mix and choices of priorities in poverty alleviation policies and programmes are presented for the main regions (Africa, Asia and Latin America) in A World of Difference, a New Framework of Development Cooperation, op.cit., and for Africa in ECA, Rural Progress, Vol.XII, No.1, 1993 (in Section II on Poverty Alleviation and Structural Adjustment in Rural Africa - Some Reflections on Practical Measures).

114. In terms of effective provision of aid, a number of outstanding issues remain:

(1) Increasing the overall volume of aid

This could be achieved by creating a new motivation for aid. For UNDP, "the new motive must be the war against poverty, based on the recognition that this is an investment not only in the development of poor nations but in the security of rich nations" ³⁵ Raising awareness of all the dangers linked with the various manifestations of poverty - such as environmental degradation, disease, migration, drug abuse, terrorism - *inter alia* through the media, may be instrumental in obtaining enhanced public support for increased aid. Also, spreading information about the situation, the potential and the efforts of developing countries in respect of poverty alleviation would help.

(2) Making the allocations of aid more equitable, better responding to the requirements of the poorest countries

Both the questions of country allocations and of earmarking these allocations in support of anti-poverty policies and programmes arise. Increased use of multilateral channels would contribute to this as multilateral aid is generally spread among a larger number of recipient countries, with programmes more geared to poor countries and countries with large numbers of poor people, than bilateral aid. Moreover, multilateral agencies, like the World Bank, UNDP, UNICEF, IFAD, FAO, WHO, UNESCO and ILO, have developed considerable expertise and institutional capacity to assist countries in carrying out anti-poverty policies, programmes and projects. Establishing indicative targets, in terms of sectoral allocations as well as allocations to country groups³⁶, and monitoring their implementation, would heighten pressure for improved aid allocations by donors.

(3) Improving policy dialogue and encouraging Governments to undertake anti-poverty policies and programmes

As the poor are generally excluded from the political arena where policies and measures determining the allocation of means of production and consumer goods are adopted, there are Governments carrying out development policies and programmes that lack poverty focus. A main issue is how donors can effectively help in such cases, which are likely to coincide with the most severe and urgent poverty situations. NGOs could then constitute the alternative channels for reaching the poor.

^{35/} UNDP, Human Development Report, 1993, p.8.

^{36/} This has been done with the 0.7 per cent ODA/GNP target for the group of developing countries and the alternative set of ODA targets and commitments embodied in the Programme of Action for the Least Developed Countries for the 1990s.

(4) Deepening inquiry into recipients' perceptions and following a demand-driven and participatory approach

This may put considerable strain on aid agencies' capacity, entail high costs and be politically impracticable in certain cases. Support to the creation of participatory structures such as local government bodies and the provision of development education on a wide scale would help the poor to anticipate their needs and requirements. NGOs may have to play a key intermediary and implementation role in order to operationalize the demand-driven approach. Research on how demand develops in a particular social and cultural environment and aid-related perceptions of recipients is also essential.

(5) Improving the quality of aid

This could be done in particular through increased provision of quick-disbursing programme aid, and local and recurrent cost financing in order to meet the special requirements of social programmes. Sustainability in the provision of aid is also important.

(6) Improving aid coordination, both among donors and between them and the recipient Governments, local communities and NGOs

Up to now, only a few coordination meetings (such as the Consultative Group for Uganda in 1993) have devoted themselves to the consideration of poverty alleviation policies and strategies. In this connection, it would be essential that donors and recipients turn their attention to development strategies formulated with an appropriate emphasis on poverty alleviation, and a relatively long time-frame (i.e. going beyond structural adjustment); and that aid coordination be made a primary responsibility of the recipient rather than a donor-driven process. Aid coordination should foster links and coherence between interventions at the macro and micro levels. But strengthened coordination must not give rise to more cumbersome procedures and slower delivery of assistance. Building up institutional and management capacities of recipient Governments to coordinate and implement assistance programmes and bringing a greater number of developing countries under the aid coordination process are a primary necessities.

(7) Improving the information data bases in respect of both poverty indicators and aid flows

So far, detailed poverty assessments are available for only a limited number of developing countries. Moreover, there are at present statistical problems in measuring aid, not only at overall levels (if all donors are to be taken into account), but also aid to sectors, in particular those meant to contribute to poverty alleviation (the question of which sub-sectors should be considered arises here). As already indicated, the DAC creditor reporting system provides only an incomplete record of flows for DAC donors and this is due both to the way the system has been devised (as it was not originally geared to the above-mentioned concerns) and to the inadequate reporting of DAC members. Improvements are also required in respect of flows from financial institutions and NGOs' information.

Annex TABLE 1
COMPARISON OF DIVERGENT FEATURES AMONG THE THREE TYPES OF SAFETY NETS

Features	Social Action Programs (SAP)	Emergency Social Funds (ESF)	Social Investment Funds (SIF)
Duration	Long-, medium- and short-term. Usually disappear when goals are met and/or time period (when specified) ends.	Short-term, temporary, conjunctural. Emphasis on speedy action. Disappear when goals are met and/or time period expires.	Long- and medium-term. More permanent, usually no specific time period is set.
Target Population	Mostly vulnerable groups affected by economic reform but also chronically poor. Tend to focus more on urban than rural.	Most vulnerable groups affected by economic reform (new poor). Tends to focus more on urban than rural areas because former is more affected by reform.	The chronically poor, the most needy. Emphasis on more precise targeting over speed. More balance between urban and rural areas.
Overall Objective	Mitigation of transitional social costs of economic reform and, to less extent, medium to long-term policies to reduce poverty.	Mitigation of transitional social costs of economic reform and prevention of further deterioration of living conditions.	Reduction/eradication of poverty and integration of poor into production.
Specific Policies	Combination of ESF and SIF policies.	Temporary relief through jobs, training, food, unemp't. compensation, basic social services, rehab. of infrastructure.	Creation of permanent jobs and increase in income and productivity (credit, training and tech.-aid packages), dev't/expansion of economic-social infrastructure, improv't of health and education.
Administration, Autonomy, Decentralization	Least decentralized and autonomous. Gov't. branches or public agencies often identify/manage projects (particularly employment programs); mostly are supply-based but some are demand-based.	Most decentralized and autonomous. Intermediary agencies select/monitor projects based on pre-set standard criteria but don't identify/manage them (demand-based). Can directly fund projects.	Not enough data but appear relatively decentralized and usually autonomous. Rest of features as in ESF, but usually require bidding to award projects. Mostly demand-based but also supply-based.
Integration/coordination with other public agencies.	Usually high but varies significantly.	Relatively low.	More than in ESF.
Participation of NGOs, local communities, municipalities, private for-profit businesses.	Limited role (with exceptions). No significant dev't of local capacity.	High. These organizations identify/manage projects. Contribute to strengthen local capacity.	High, but more participation of gov't. agencies. Contribute to strengthen local capacity.
Procedures for Procurement, Disbursement and Approval	Tend to be complex and cumbersome due to need of coordination and many agencies involved.	Procedures tend to be simple and flexible, due to independence plus fast action.	Procedures tend to be more complex than ESF due to emphasis in proper targeting and more coordination with gov't. agencies.
Relationship with economic reform	Usually strong.	Fair.	Often introduced after major goals of economic reform have been achieved.
Political interference	Tends to be high with notable exceptions.	Often very low or none.	Appears to be low.
Sustainability and transfer of knowledge to gov't.	High because of integration with both gov't. agencies and macro national policies.	Relatively low (not central issue) because of its temporary nature, emphasis in speed, and less coordination with gov't.	Medium to high (it is important issue) because more emphasis on long-run, and better coordination with other gov't. agencies.

Sources: Author's summary based on Godínez 1992, Marc et al 1993, UNCTAD 1993, UNICEF et al 1990 and analysis of case studies.

Annex TABLE 2
CHARACTERISTICS OF SAFETY NETS IN AFRICA, 1988-1993

Countries/ Program	Start Year	Duration (years)*	Type		Autonomy	Target Population	Policies/ Projects				Financing				Evaluation
			SAP	ESP/ SIP			SB	ESP	EC/IG	Total (\$ mil.)	Percentage Distribution				
											Ext'l	Govt.	Counter- parts		
CAMEROON ICA	1991	n.a.	X		None	Laid off public employees, urban young, undernourished children & women.	X	X	X	X	69	78	22	0	Few components have started, slow disbursement, external donors withdrew, external suspension, heavy bureaucracy, too many components and complexity.
GHANA PACS	1991	n.a.	X		None	Those affected by adjustment, laid off public employees, specific cities.	X	X	X	X	27	95	2	3	Low start, very slow implementation, disbursements with donors, political instability, complex management, weak institutions.
KENYA BPS	1991	5		X	Medium, non-govt. agency but strong govt. control.	Low income groups affected by adjustment in poor areas; unemployed public employees and university graduates, war returnees, rural poor.	X	X	X	X	613				Projected 200,000 beneficiaries (2.5% of population) and 66 projects. Two-year delay in start, insufficient resources even to tackle effects of economic reforms, problems of targeting, slow disbursement, institutional capacity, sustainability and evaluation.
SENEGAL PACS	1987	6	X		Relatively low income role of local govt., communities & NGOs.	Groups affected by economic reforms; rural afflicted by seasonal unemployment and hunger, low income, unemployed and underemployed urban households, retrained public employees, poorest regions, undernourished women and children.	X	X	X	X	80	94	6	0	Possibly 10,000 beneficiaries (0.3% of population). Very low start, donors delay, complex and centralized administration, dispersed activity, poor targeting, low transparency and sustainability, underfulfillment of goals. Terminated in 1993.
SENEGAL BPS	1989	Mo		X	Medium, strong supervision by ministry.	Laid off public employees and undernourished women and children.	X	X	X	X	13	87	4	9	Very low start but improving. Inexperienced staff, difficulties to recruit technical staff, lack of good small-scale projects.
SENEGAL BPS	1989	n.a.	X		None	Underemployed and low income urban households, laid off workers, small farmers with low productivity.	X	X	X	X	17	94	6	0	Rapid (ahead of schedule) and successful implementation, positive impact, good technical assistance, one donor withdrew.

.../...

Annex TABLE 3
CHARACTERISTICS OF SAFETY NETS IN LATIN AMERICA: 1986-1993

Countries/ Programs	Start Year	Duration (years)*	Type		Autonomy	Target Population	Policies/ Projects			Financing				Evaluation
			SAP	ESF			SIF	SS	SEI	EC/IG	Total (\$ mill.) ^b	Ext'l	Govt.	
ARGENTINA FATS	a	n.e.		X	Legally	Chronically poor, low income communities.	X	X	X	n.e.				n.e.
BOLIVIA FSE	1986-91	4.5		X	High	Urban and rural areas affected by unemployment, with poor health and nutrition standards, specific groups.	X	X	X ^e	191	85	15	0	Very successful: one million beneficiaries (14% of population), 3,269 projects, non-political, excellent links with NGOs, enhanced local govts., positive political effects. But lack of adequate selection criteria, little permanent effects, only a fraction of poorest reached, women neglected. Successful: 1.6 million beneficiaries (19% of population); 1,311 projects, 81% of projects going to poorest 50% of population. But need of improvement in: govt. coordination, SIF monitoring and evaluation, targeting, criteria for project selection and participation of rural NGOs.
FIS	1990	No			X	Poorest 50% of population with very low indicators of health, nutrition and education.	X	X		96	69	8	23	About 55,000 beneficiaries (0.4% of population), 2,076 projects. High capacity to mobilize external funds and large share contributed by beneficiaries; successful programs on nutrition and strengthening of community's capacity; strong NGO participation. But too long and complex procedures, lack of coordination with other public programs need to improve targeting, information and evaluation.
CHILE FOIS	1990	no			X	Regions and areas with worst poverty indices: lowest income groups (rural, mining, fishing), unemployed, marginalized youth, ethnic groups, women.	X	X	X	77	43		--57--	n.e.
COLOMBIA FSE	1992	3		X	n.e.	Poor living marginally, targeted minorities.	n.e.	n.e.	n.e.	n.e.				n.e.
COSTA RICA FORESA ^d	1975	None	X		None	Poor and lowest income groups in urban and rural areas.	X	X	X	123				One million beneficiaries (32% of the population). Widespread global social protection through different govt. programs and some poverty alleviation by fund, but inadequate program targeting, (does not reach the poor but middle income) some inefficiency and need of global integration of social policy.
ECUADOR 14 Funds	1980s	No	X		None	Critical poverty in urban and rural areas: children, elderly, urban marginal, peasants, informal	X	X	X	180				Too many programs impede overall evaluation.

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Annex TABLE 3 (continued)

Countries/ Programs	Start Year	Duration (years) ^a	Type			Autonomy	Target Population	Policies/ Projects			Financing			Evaluation	
			SAP	ESF	SIF			SS	SEI	EC/IG	Total (\$ mil.) ^b	Percentage Distribution			
												Est'l	Govt.		Counter Parts
<u>EL SALVADOR</u> FIS	1990	4		X		High	Critical poverty: pregnant nursing women, youth, war affected families, micro enterprises, small farmers.	X	X	X	67	67	9	24	1.4 million beneficiaries (27% of population). 1,493 projects. Impressive performance: solid finances, political transparency, efficiency, politically neutral, strong links with communities and NGOs. But difficulties to reach the poorest, and little going to health and nutrition.
<u>GUATEMALA</u> FIS	a	Mo		X ^c		n.a.	Poorest rural and urban groups: children, women, ethnic/regional groups.	X	X		95	95	5	0	n.a.
<u>HONDURAS</u> FIS	1990	4		X ^d		High, but govt. majority in council.	Groups badly affected by adjustment: urban- informal and rural- traditional sectors, undernourished women and children, ethnic groups.	X	X	X	105	78	12	10	About 700,000 beneficiaries (13% of the population). 3,727 projects. Rapid start, good performance, well targeted on poor: 700,000 beneficiaries, high participation of municipalities. But too much funds left for last year, delays in infrastructure, need to diversify in basic needs, small share of funds to informal sector.
<u>MEXICO</u> PRONASOL	1989	Mo	X			Relati- vely low; strong city participa- tion.	Critically poor: peasants and ethnic groups in isolated rural regions, marginal urban communities, women and youth, migrants.	X	X	X	2,000 to 3,000	0	100	0	Possibly 24 million beneficiaries. Rapid results, enormous resources, progress particularly in health and education, education, credit to production and other basic services. Total expenditure was 0.7% of GDP in 1992 but might have not reached the poorest.
<u>NICARAGUA</u> FIS	1990	5		X		Legally, but no NGOs/ local com- munity representa- tives in council.	Extreme poverty resulting from civil war and structural adjustment.	X	X	X ^e	n.a.				n.a.
<u>PANAMA</u> FIS	1990	3		X		Legally	Poorest urban and rural; unemployed and underemployed; ethnic, regional and marginal groups; youth.	X	X	X ^f	n.a.				n.a.
<u>PERU</u> FORCODES	1991	n.a.		X		Legally, but govt. control.	Poor but not clear targeting.	X	X	X	75				Delay in start, really began in 1992. 1000 projects funded, national coverage. But govt. attempt to control it politically, really insufficient fund to reach 12 million poor, inadequate targeting.

.../...

Annex TABLE 3 (continued)

Countries/ Program	Start Year	Duration (years) ^a	Type			Autonomy	Target Population	Policies/ Projects			Financing				Evaluation
			SAP	ESP	SIP			SS	SEI	EC/IG	Total (\$ mill.) ^a	Percentage Distribution			
												Ext ^b	Govt.	Counter Part ^c	
URUGUAY PRIS/PISE ^d	1990	6		X ^e		n.a.	Poor and critically sick people, unemployed, pregnant women, children, elder, disabled, undernourished.	X	X	X	n.a.				n.a.
VENEZUELA FORVIE	1990	No		X ^e		Legally, but strong govt. representa- tion in council.	Extreme poverty in urban and rural areas, ethnic/regional groups.	X	X		1,000	70	30	0	n.a.

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Social Action Program; SSP = Emergency Social Fund; SSP = Social Investment Fund;

Social services, mostly nutrition, primary health care, education (mainly basic), children care, land tilting, social assistance;

social and economic infrastructure, mostly sanitation (water and sewage), health care facilities, schools, day care centres, housing, irrigation, roads, soil conservation and reforestation, electricity, centres for women, Indians, communities.

Employment creation and income generation, mostly through credit, training, technical aid and marketing to micro entrepreneurs, parents, self employed, women.

"No" means that there is no specific time period specified in the law; the period can be extended in Honduras and Panama.

Data refer to: 1 year in Costa Rica, Mexico and Peru; 3 years in Chile, El Salvador and Honduras; 4 years in Venezuela (planned); 5 years in Bolivia P82 and 7 years in Ecuador.

Non-government agencies executing programs (NGOs, communities) or beneficiaries.

There are two institutions: in Panama PAS sets general principles and rules (a SAP with no specific time set) and the PAS administers the program (an ESP with a three-year time period); in Uruguay PAS sets general principles and FIEG is the administrator.

Not approved yet towards the end of 1992. ℓ : An ESP with some SIP features. q : Most important activity.

Author's summary based on Avila et al 1992; ECLAC 1992a, 1992b; F16 1992; P16 1992a, 1992b; F0818 1992a, 1992b; Gobierno 1992; Graham 1991, 1992, 1993; Jorgensen et al 1992; LLO 1992; Navarro 1993; Plant 1993; PREALC 1998; Presidencia 1992; Rodriguez Molas 1992; UNCTAD 1993; UNICEF et al 1990.

Annex TABLE 4

ODA to developing countries: key totals and shares

	1988	1989	1990	1991	1992
	Net disbursements				
1. <u>ODA Receipts from all sources</u>					
Total in current \$(billions)	47.5	48.6	52.6	57.4	58.3
of which:					
bilateral disbursements	36.4	36.3	39.2	41.3	41.3
multilateral disbursements	11.0	12.3	13.4	16.1	17.0
Percentage distribution: Total	100	100	100	100	100
of which:					
bilateral disbursements	71	75	75	72	71
multilateral disbursements	23	25	25	28	29
Total in constant 1991 \$(billions)	54.2	56.0	54.5	57.4	54.9
Total (% change over previous year)	- 0.6	3.3	-2.7	5.3	-4.4
2. <u>ODA from DAC countries</u>					
Total in current \$(billions)	47.0	45.7	52.9	56.7	60.8
of which:					
bilateral	31.9	32.9	37.1	41.3	41.3
to multilateral agencies	15.1	12.8	15.8	15.4	19.5
Percentage distribution: Total	100	100	100	100	100
of which:					
bilateral	68	72	70	73	68
to multilateral agencies	32	28	30	27	32
Total in constant 1991 \$(billions)	53.7	52.9	54.8	56.7	57.3
Total (% change over previous year)	7.5	-1.5	3.5	3.2	1.1
Total (as percentage of DAC GNP)	0.34	0.32	0.33	0.33	0.33
3. <u>Further information: grants from NGOs</u>					
in current \$(billions)	4.2	4.0	5.1	5.2	5.5
in constant 1991 \$(billions)	4.9	4.6	5.2	5.2	5.2

Source: OECD, *Financial Resources for developing countries: 1992 and recent trends* (SG/PRESS(93)41).

Annex TABLE 5

Individual DAC donors' aid ratios to social sectors

Country	Total ODA given, 1991		Aid social allocation ratio (%) 1988/90	Aid social priority ratio (%) 1988/90	Aid human expenditure ratio (%) 1988/1990	Social priority aid as % of total aid 1988/90
	\$ million	As % of GNP				
Japan	10945	0.32	11.5	32.0	0.012	3.7
United States	9402	0.17	15.9	52.4	0.014	8.3
Germany	6890	0.41	7.8	26.3	0.008	2.1
France	6530	0.54	12.0	30.4	0.020	3.6
Italy	3352	0.30	21.3	36.5	0.023	7.8
United Kingdom	3231	0.32	11.9	55.2	0.021	6.6
Canada	2604	0.45	19.7	46.5	0.041	9.2
Netherlands	2517	0.88	21.1	49.1	0.091	10.4
Sweden	2116	0.92	12.3	47.7	0.054	5.9
Denmark	1200	0.96	30.5	71.9	0.210	21.9
Norway	1178	1.14	24.9	71.9	0.204	17.9
Spain	1177	0.23	..	..	..	..
Australia	1050	0.38	14.6	15.7	0.009	2.3
Finland	930	0.76	34.3	39.7	0.103	13.6
Switzerland	863	0.36	34.8	48.3	0.061	16.8
Belgium	831	0.42	..	..	..	..
Austria	548	0.34	27.0	32.9	0.030	8.9
Portugal	213	0.31	..	..	..	..
New Zealand	100	0.25	..	..	..	17.0
Ireland	72	0.19	..	..	..	..
Total OECD	56700	0.33	15.1	43.2	0.021	6.5
All developing	45100	1.5	16.9	44.9	0.114	7.6
Least developed	14810	15.1	18.9	47.8	1.364	9.0

Source: UNDP, Human Development Report 1993 (tables 41 and 9).

Note: For the definition of the various ratios, see II.D. Totals and ratios for total OECD and all developing countries differ substantially because the former relate to donor data with ODA referring to bilateral ODA plus contributions to multilateral agencies and donor GNP while the latter are based on ODA receipts (bilateral ODA plus multilateral ODA) and recipient's GNP.